Compliments of The First National Bank in Minneapolis, Minn.
Correspondent of The National City Bank of New York

1812

THE NATIONAL CITY BANK OF NEW YORK

1927

Economic Conditions
Governmental Finance
United States Securities

New York, December, 1927

General Business Conditions

THE past month has been marked by continued evidence of moderate reaction in business and by a strengthening conviction on the part of business men that this reaction is not destined to be serious. Accumulating confidence in the outlook is reflected in the stock market where prices, aided by easy money, have been recovering strongly from the recent slump, on a large volume of trading.

Retail and wholesale trade continues to reflect the retarding influence of unseasonable weather which has held back business all Fall. So long, however, as purchasing power continues high, there is no reason to anticipate a prolonged slump in buying, and the probability is that holiday trade will continue its yearly custom of breaking all previous records. Moreover, it ought not to be overlooked that the warm weather, while delaying Fall retail purchases, has rounded off the agricultural season in far better shape than was thought possible in mid-summer, a fact which in the long run can be counted on to exert a favorable influence on general business.

Steadiness in steel operations at a time of year when the seasonal trend is ordinarily downward is contributing to an improvement in sentiment. Prices on steel bars, shapes, and plates have been advanced and mill operations showed a slight increase around the middle of the month to the highest levels since early in September. While this gain in activity was not fully maintained, nevertheless the continued stability of steel operations has encouraged the belief that the year-end decline in steel production may be less than usual.

Still more influential in restoring confidence is the growing realization of the underlying soundness of the present situation. Expectations are high for a decided come-back in the automobile industry next year. Just as the slump in that industry is held largely responsible for the current somewhat reduced pace of business, so the recovery in that line is expected to correspondingly stimulate business.

Crop returns, moreover, have been good on the whole and farm purchasing power enhanced over that of a year ago. Money conditions continue favorable. Foreign trade is in healthy condition. Building construction promises to continue in large volume. Prices generally are down to levels which are beginning to encourage buying, and stocks of goods in most instances have been reduced to points which must soon call for replenishment. Conditions, in short, are such as usually precede expansion, and we continue to look forward with confidence to 1928 as a good year for American business.

Present Business Not Depressed

Incidentally, with so much talk about trade reaction, recovery, etc., it is in order to point out that present business, though no longer proceeding at the boom levels of a year ago, is by no means depressed in the ordinary sense of the term. The value of building contracts awarded thus far this year has been practically equal to the record breaking total of the corresponding period of last year. Bank clearings, exclusive of those in New York City where the figures are unduly influenced by stock market operations, are running higher than those of a year ago despite the lower level of prices. Consumption of electric power in industry is measuring very close to the levels of last year. Railway traffic, while running considerably under that of a year ago, owes its decrease in large measure to a reduction in shipments of coal, ore, and coke, reflecting the large stocks of coal on hand, decreased consumption due to the warm weather, and the lower rate of operation in the steel industry. Loadings of merchandise and less-than-carlot freight which reflect miscellaneous manufactured products are standing close up to the levels of a year ago. These, certainly, are not symptoms of depression, but on the contrary indicate a volume of business distinctly above the average.

It would seem that many observers of business have been relying too much on the old pig iron yardstick, failing to recognize that as the country has grown and its activities broadened, the performance of a single industry, no matter how basic, can no longer be trusted as

a single guide to the composite performance of all lines. No better proof of this can be cited than the activity in the cotton spinning industry during the past year, the recovery of the shoe and leather industry, the steady growth of industries like the manufacture of tobacco products, cement, and food products, and the many other forms of productive, distributive, and professional activity too numerous to mention that have gone on undisturbed and in the sum total bulked large enough to measurably offset the lessened activity in steel, automobiles, and kindred lines.

The Question of Profits

It is true that while the volume of business has held up in the face of many adverse circumstances, the profits of business have made a less satisfactory showing. There is no question but that the continuous decline of prices during the past two years has given business a difficult problem to meet, and business men have had to depend mainly upon large scale output and the most careful elimination of waste and inefficiency in production to keep out of the red. With the margin of profit thus closely related to mass production, it was inevitable that a lowering of the general level of production would find prompt reflection in earnings.

Taking the year as a whole, however, the showing for earnings promises to be far from discouraging, despite the probability that total corporate profits will fall below those of a year ago. Combined net profits of 200 leading industrial corporations in miscellaneous lines of business during the first three quarters of this year show a decrease of only 7½ per cent as compared with corresponding figures a year ago. With the figures for the General Motors Corporation excluded, the decrease would be 14 per cent, but against this more unfavorable showing is the fact that at least ten major classifications of companies, to wit—amusement, baking, chemical, coal, electrical, foodstuffs, leather, merchandising, textiles, tobacco, and miscellaneous—showed actual gains over a year ago, while if the large losses sustained by the oil companies, due to the peculiar difficulties of that industry, are eliminated, the combined total earnings of the remaining companies are up slightly in excess of those in 1926.

Certainly it seems safe to conclude that the grand total of industrial profits for 1927, if lower than that of 1926, will compare favorably with that of 1925, which was considered a very prosperous year for business.

As for 1928, there are still large opportunities for business to go on and find new means of introducing economies and eliminating waste, thereby creating new avenues for profit from these savings. Industry has already accomplished wonders in the elimination of waste from production, but has taken only the first steps in applying the same principles of efficiency to our methods of distribution. If we can but explore this field the possible savings translated into profits would form in our opinion the basis of results as amazing as those which have followed the application of these methods to production.

If, in addition, the recent slight upturn in prices, following the long period of comparative stability, should be the forerunner of a further and more sustained rise, the outlook for earnings would be still further brightened. Such a trend of prices could completely change the present picture in short order, modifying as it doubtless would do the present practice of hand-to-mouth buying and encouraging the building up of inventories, all of which would be in the direction for a time, at least, of increasing profits.

The Metal Industries

Reference has already been made to the situation in the steel industry. Mill operations are estimated at close to 70 per cent of capacity as against 75 per cent a year ago at this time, with the difference, however, that last year activity was falling off, whereas this year it is being steadily maintained. Prices, of course, are lower than a year ago, but here too the situation is showing more stability of late.

Ten months' steel production aggregating 36,789,317 tons of ingots reveals a loss of 7.4 per cent from the corresponding figures for 1926, but is 3 per cent above corresponding figures for 1925. Probability is that final figures for the year will be less than 10 per cent under 1926, which is a notable record in view of the falling off in automobile production, decline in oil drilling operations, and low level of railway equipment purchasing.

Of the major steel consuming industries, building is still being projected in large volume, the October total of contracts awarded throughout the country being 8 per cent larger than the total for October a year ago and a record for the month. The agricultural implement trade, which has absorbed a large amount of steel during the past year, continues active and with the improvement in farm conditions is looking forward to another successful year in 1928. These large consuming interests, a bigger demand from the automobile industry, low stocks of steel on hand, and the possibility of increased railway equipment buying are counted on to sustain steel production during the new year.

Non-ferrous metals are showing a decidedly stronger tone. Copper, in particular, has been in active demand with the price moving up to 13⅞ cents, an advance of ¾ cent for the month of November and of 1½ cents since the low

point of February. Further increase to around 15 cents is talked of as a possibility after the first of the year.

Higher prices for copper reflect both an increased demand, particularly from foreign sources, and a strong statistical position. Domestic consumption, though off from the record level of 1926, has been up from that of 1925. Stocks, invisible and visible, both here and abroad, are low compared with requirements. With no apparent intention on the part of producers to increase production, the copper market appears to be in the best shape for a major advance in a long period.

Improvement is shared by other non-ferrous metals. Zinc is up from 5.95 cents to 6.20 cents on good demand for first quarter 1928 delivery. Lead, though still pegged at 6¼ cents, has been more active, and tin has advanced from 56.00 cents to 58.37½ cents. Steadiness in steel is helping sentiment in non-ferrous metals, which are expected to benefit also from resumption of activity in the automobile industry.

Textiles Less Satisfactory

The situation in the textile industry, on the other hand, has become less satisfactory of late. In addition to the troubles of over-production, the industry has had to contend with serious floods in New England. Happily the losses to plant and machinery on this account have been less serious than was first feared.

In cotton spinning the output of goods for some time has been in excess of distribution, and curtailment of production is believed to be inevitable. The hope is that it will come before the accumulation of goods becomes unduly large.

During the month of October sales of standard cotton cloths, according to figures reported by the Association of Cotton Textile Merchants of New York, were only 68 per cent of production. Shipments were 88.4 per cent of production, stocks on hand increased 17.6 per cent during the month, and unfilled orders fell off 13.6 per cent.

Whether the industry will be able to check production in time remains to be seen. For the month of October consumption of raw cotton by mills was still at a record for that particular month, though smaller than the total for September.

Signs of a shrinkage in business appear also in the inauguration of another wave of wage-cutting in New England mills. With production costs higher in the Northern mills than in the Southern mills falling off in business is felt most acutely by the former, which are taking this step in an effort to equalize competition. Reductions posted have been 10 per cent.

In the wool goods trade business has been hurt by the long spell of warm weather. In general, however, conditions are better than a year ago, though there is still plenty of room for further improvement. A feature of the present situation is the firmness of raw wool, due to comparatively low stocks and indicated decrease in production.

The silk goods business is active, but is having trouble with over-production, pressure of record stocks of raw silk in storage, and weakness in raw material prices. Rayon business, on the other hand, is booming, with producers having all the business they can handle.

The Farm Situation

The Government's crop report as of November 1st raised the preliminary estimate of corn production to 2,757,000,000 bushels, or better than 100,000,000 bushels above the final estimate for 1926 and the five-year average. This is a remarkable outcome after prospects up to the 1st of September of the lowest crop with one exception in twenty-six years. Exceptionally favorable ripening weather in September and October saved the situation. The price of corn on the Chicago market is about 18 cents per bushel above the price at this time last year.

Estimates upon other crops are but slightly changed, and on the whole the year may be counted a good one. The Department of Agriculture estimates, on the basis of current prices, that the cash value of the field crops is about 8 per cent above that of last year.

One month ago the wheat market was facing large estimates upon the yields in Canada and Europe, but these have been reduced in some degree. The latest official figure on the Canadian crop is for 444,282,000 bushels, a reduction of 14,500,000 bushels from the previous estimate, but still 34,471,000 above last year's crop. The latest on all Europe, excepting Russia, is for about 70,000,000 bushels more than last year. The Argentine crop is doing well and likely to be about as large as last year, but the Australian crop is suffering from drought and the loss there probably will offset the estimated increase of 34,000,000 bushels in the United States. Reports from Russia indicate a yield of all grains rather less than last year. The price of wheat is about eight cents per bushel under that of last year at this time.

It may turn out that while the bushel yield of wheat the world over is larger than last year, the quantity of high quality may be less. The Canadian crop experienced bad weather in harvest, and this was true of European grain generally. The London Times gives a very pessimistic letter from its agricultural correspondent, from which we take the following:

> There is now drawing to a belated close one of the worst corn and hay harvests in the history of British farming. There may have been parallels to 1927 in past ages, but, taking the country as a whole, it is

doubtful whether the farming industry in these islands has ever suffered so adversely. All departments have not been equally affected; there have been suggestions of prosperity in certain sections, as in sheep, but among the standard pursuits, with this notable exception, the variants to the general rule of gloom and disappointment have been local and circumscribed.

The broad result of the season's experiences cannot yet be computed. There have been many more or less vague predictions, but it is advisable to await concrete evidence on the point. Several correspondents state definitely what the outcome will be in their cases, and among this class are included some of the most reputable farmers and stockowners in the country. One of them, who states that he has given notice to end his tenancy next Michaelmas, remarks that there are two classes of farmers who are resolved upon quitting the business; one because they cannot carry on, and the other in order not to lose what little capital they have left. There may be a time when farming will pay again, he says, but "certainly not in the near future, so far as I can see."

The most notable improvement in the agricultural situation continues to be in the cattle market. The best price for beef cattle on the Chicago market in the past month has been $18.50 per hundred weight. All kinds of cattle are bringing satisfactory prices, and the reason is to be found in the fact that the receipts at all markets in the ten months to October were 8.5 per cent lower than in the corresponding months of last year. Liquidation has run its course, and the agricultural papers are hastening to warn the cattle-growers not to increase their herds too rapidly. Relief legislation for the cattle industry is no longer called for.

The hog market has been weak, upon the largest receipts in two years, and strenuous efforts by the packers to get prices down to where their operations would show a profit. Pork is now the cheapest meat offering, which should help the demand. Exports of pork products in the ten months ended with October aggregated 833,513,000 pounds, against 960,944,000 pounds in the corresponding months of last year, and they have been on a declining scale over several years. Exports of beef for the same periods were 86,436,000 against 103,205,000 pounds.

The cotton crop is about 5,000,000 bales less than last year, but since the large carry-over bars any question as to the adequacy of the supply for the present year, interest now centers in the rate of consumption and the probable carry-over next August. The Garside report dated November 21 says that "the world as a whole is still using American cotton at about the rate of 16,000,000 bales per year, but present conditions in the yarn and cloth markets, particularly in this country, indicate that consumption may decline from this level." Activity in the cotton goods industry is slackening, both north and south. A number of New England mills have put wage-reductions into effect, and time schedules have been cut in the south. Exports of cotton, August 1 to November 25, were 2,913,950 bales, against 3,753,864 bales in the corresponding weeks of last year, but port stocks in Europe have declined approximately 177,000 bales in that time. The New York price is around 19 cents per pound.

Reports on Agriculture

The Commission appointed about one year ago by the Chamber of Commerce of the United States, headed by the Hon. Charles M. Nagle, of St. Louis, to examine into the agricultural situation, has published its report. The committee consisted of ten men prominent in the activities of the Chamber, and all important in the business life of their home communities in different sections of the country. They have held meetings in different sections, invited statements as to agricultural conditions and given earnest consideration to the representations that have been made to them. The work has been gratuitously done, of course, in response to the call of the Chamber, and with a sincere desire to contribute something to the solution of the problem believed to exist.

The result is a volume which undoubtedly presents the most comprehensive review of agricultural conditions which has been made. It finds the chief explanation of the disadvantageous position in which the farmer has been placed since 1920 in the post-war readjustments, which rapidly deflated the prices of his products while the prices of the things he has had to buy were not affected in equal degree. It concludes that the worst of the post-war readjustments have been completed, but that the farmer's position is not yet restored to what it was before the war, and that both as a matter of justice and in the common interest, national policies should be directed to the improvement of his position by all practicable means.

The Commission does not approve of such artificial remedies as the McNary-Haugen bill, but since it does not believe that governmental action to secure higher prices for farm products is practicable, it recommends efforts along every possible line to lower his operating and living costs, where subject to governmental influence. It favors the creation of a Federal Farm Board, consisting of a small number of men appointed by the President, which shall act as an advisory board to the industry, cooperating with the farm cooperative associations. It believes that an effort should be made to develop a national agricultural policy, with a view to securing the best utilization of our agricultural resources. It urges that a reduction of the acreage of cultivated land is desirable, by the conversion of marginal lands to improved pastures and the growth of timber. The report cannot be satisfactorily summarized, but well deserves reading. It does not propose remedies of the emergency-relief kind.

A special committee of the American Association of Land Grant Colleges and Universities, appointed to consider the general farm situation, made a report at Chicago on November 17. Its recommendations run along the same lines as those of the Chamber of Commerce Commission. It deprecates the idea of special emergency legislation and pleads for a broad, constructive policy, which includes a "far-sighted land policy", with no encouragement for bringing more lands under cultivation, formulation of state programs for equalizing the tax burden, continuation of the efforts to improve the methods of crop and live stock production, and touching upon tariff rates, freight rates, credit facilities, etc.

The American Farm Congress in session at Kansas City in November voted against governmental price-fixing and condemned any plan to place the buying and selling of farm products in the hands of a Federal agency.

Farm Tenancy

The Department of Agriculture has issued recently a statement giving the results of an inquiry into farm tenancy. The number of tenant-operated farms increased from 1920 to 1925 by 7,724, a very slight percentage. The total number of tenant farmers in the latter year amounted to 38.6 per cent of all farm operators, but the statement says that very little absentee landlordism exists, inasmuch as nine-tenths of the rented farms are owned by landlords who live near by. Moreover, most of the farm landlords are ex-farmers, and the average landlord has less than two tenant farms averaging about 100 acres each.

This is interesting in view of representations from time to time to the effect that the American farm population is being reduced to a state of peasantry and that the ownership of the land is passing by mortgage foreclosure into the hands of a comparative few owners.

Moreover, the statement shows that about 50 per cent of the tenants had begun farming as hired men, which confirms previous writings about the "agricultural ladder," of which the first rung is employment as a hired man and the final rung is proprietorship. Some notable papers have been written of this ladder, and the influence of rising land values upon the length of time required to climb it. Opinion is divided as to whether or not rising land values have made it more difficult for tenants to become proprietors, inasmuch as rising land values have been usually accompanied by higher prices for farm products, lower production costs and lower interest rates. Obviously the conditions which produce rising land values are not altogether disadvantageous to tenants.

Professor George H. Tungln, of Iowa State College of Agriculture, delivered an address last year in which he presented the significant revelation, now supported by the 1925 Federal Agricultural Census, that there are entire counties in Iowa in which approximately 50 per cent of all tenants are near relatives of the landlords. He states further that in a 1923 study of 100 retired farmers in Wisconsin it was found that 26 had succeeded either fathers or fathers-in-law when they began farming, while 47 of them had in turn been succeeded by sons or sons-in-law on the farms, from which they retired.

This authoritative information goes far in showing that farm tenancy as it exists in the United States is a normal feature of ownership succession.

Grading and Stamping Beef

The Division of Marketing, Department of Agriculture, has been for some time conducting a service in grading and stamping beef carcasses, extended this year until it is rendered in nine cities and is exciting considerable interest in the trade. Its grading service began some years ago in connection with the department's market news service, and at first was for the benefit of several governmental organizations, notably, the United States Shipping Board, the Veterans' Bureau, etc. Later it was extended to include other large buyers of meat. It was frequently called upon to settle disputes between buyer and seller over the quality of meat. Originally the service consisted mainly in determining the grade at the point of delivery with reference to contract specifications.

From this beginning the service developed to the stamping of carcasses with a roller stamp which is run the full length, so that every cut bears the evidence of official grading. The object in view is to supply evidence of the true grade in such manner that it will be easily distinguished by every one handling it, including the individual consumer.

This service was quickly made use of by a number of dealers and consumers catering to a trade wanting choice beef and particular about obtaining uniform quality. The extension of the service was actively promoted by several persons interested in the live stock industry, notably, Mr. Alvin Sanders of the Breeders' Gazette, Chicago, and Mr. Oakleigh Thorne, of New York State, and eventually the Better Beef Association and the National Live Stock and Meat Board.

The service is now on a commercial basis, and, judged by the opinion of the dealers who have used it, is a success. It is performed only for dealers or large consumers who voluntarily request it, and it is said that none of these has ever discontinued it. Steamship companies, railroads, hotels, restaurants and institutions are especially interested. They buy in large quantities, want uniform high quality,

doubtful whether the farming industry in these islands has ever suffered so adversely. All departments have not been equally affected; there have been suggestions of prosperity in certain sections, as in sheep, but among the standard pursuits, with this notable exception, the variants to the general rule of gloom and disappointment have been local and circumscribed.

The broad result of the season's experiences cannot yet be computed. There have been many more or less vague predictions, but it is advisable to await concrete evidence on the point. Several correspondents state definitely what the outcome will be in their cases, and among this class are included some of the most reputable farmers and stockowners in the country. One of them, who states that he has given notice to end his tenancy next Michaelmas, remarks that there are two classes of farmers who are resolved upon quitting the business; one because they cannot carry on, and the other in order not to lose what little capital they have left. There may be a time when farming will pay again, he says, but "certainly not in the near future, so far as I can see."

The most notable improvement in the agricultural situation continues to be in the cattle market. The best price for beef cattle on the Chicago market in the past month has been $18.50 per hundred weight. All kinds of cattle are bringing satisfactory prices, and the reason is to be found in the fact that the receipts at all markets in the ten months to October were 8.5 per cent lower than in the corresponding months of last year. Liquidation has run its course, and the agricultural papers are hastening to warn the cattle-growers not to increase their herds too rapidly. Relief legislation for the cattle industry is no longer called for.

The hog market has been weak, upon the largest receipts in two years, and strenuous efforts by the packers to get prices down to where their operations would show a profit. Pork is now the cheapest meat offering, which should help the demand. Exports of pork products in the ten months ended with October aggregated 833,513,000 pounds, against 960,944,000 pounds in the corresponding months of last year, and they have been on a declining scale over several years. Exports of beef for the same periods were 86,436,000 against 103,205,000 pounds.

The cotton crop is about 5,000,000 bales less than last year, but since the large carry-over bars any question as to the adequacy of the supply for the present year, interest now centers in the rate of consumption and the probable carry-over next August. The Garside report dated November 21 says that "the world as a whole is still using American cotton at about the rate of 16,000,000 bales per year, but present conditions in the yarn and cloth markets, particularly in this country, indicate that consumption may decline from this level." Activity in the cotton goods industry is slackening, both north and south. A number of New England mills have put wage-reductions into effect, and time schedules have been cut in the south. Exports of cotton, August 1 to November 25, were 2,913,950 bales, against 3,753,864 bales in the corresponding weeks of last year, but port stocks in Europe have declined approximately 177,000 bales in that time. The New York price is around 19 cents per pound.

Reports on Agriculture

The Commission appointed about one year ago by the Chamber of Commerce of the United States, headed by the Hon. Charles M. Nagle, of St. Louis, to examine into the agricultural situation, has published its report. The committee consisted of ten men prominent in the activities of the Chamber, and all important in the business life of their home communities in different sections of the country. They have held meetings in different sections, invited statements as to agricultural conditions and given earnest consideration to the representations that have been made to them. The work has been gratuitously done, of course, in response to the call of the Chamber, and with a sincere desire to contribute something to the solution of the problem believed to exist.

The result is a volume which undoubtedly presents the most comprehensive review of agricultural conditions which has been made. It finds the chief explanation of the disadvantageous position in which the farmer has been placed since 1920 in the post-war readjustments, which rapidly deflated the prices of his products while the prices of the things he has had to buy were not affected in equal degree. It concludes that the worst of the post-war readjustments have been completed, but that the farmer's position is not yet restored to what it was before the war, and that both as a matter of justice and in the common interest, national policies should be directed to the improvement of his position by all practicable means.

The Commission does not approve of such artificial remedies as the McNary-Haugen bill, but since it does not believe that governmental action to secure higher prices for farm products is practicable, it recommends efforts along every possible line to lower his operating and living costs, where subject to governmental influence. It favors the creation of a Federal Farm Board, consisting of a small number of men appointed by the President, which shall act as an advisory board to the industry, cooperating with the farm cooperative associations. It believes that an effort should be made to develop a national agricultural policy, with a view to securing the best utilization of our agricultural resources. It urges that a reduction of the acreage of cultivated land is desirable, by the conversion of marginal lands to improved pastures and the growth of timber. The report cannot be satisfactorily summarized, but well deserves reading. It does not propose remedies of the emergency-relief kind.

A special committee of the American Association of Land Grant Colleges and Universities, appointed to consider the general farm situation, made a report at Chicago on November 17. Its recommendations run along the same lines as those of the Chamber of Commerce Commission. It deprecates the idea of special emergency legislation and pleads for a broad, constructive policy, which includes a "far-sighted land policy", with no encouragement for bringing more lands under cultivation, formulation of state programs for equalizing the tax burden, continuation of the efforts to improve the methods of crop and live stock production, and touching upon tariff rates, freight rates, credit facilities, etc.

The American Farm Congress in session at Kansas City in November voted against governmental price-fixing and condemned any plan to place the buying and selling of farm products in the hands of a Federal agency.

Farm Tenancy

The Department of Agriculture has issued recently a statement giving the results of an inquiry into farm tenancy. The number of tenant-operated farms increased from 1920 to 1925 by 7,724, a very slight percentage. The total number of tenant farmers in the latter year amounted to 38.6 per cent of all farm operators, but the statement says that very little absentee landlordism exists, inasmuch as nine-tenths of the rented farms are owned by landlords who live near by. Moreover, most of the farm landlords are ex-farmers, and the average landlord has less than two tenant farms averaging about 100 acres each.

This is interesting in view of representations from time to time to the effect that the American farm population is being reduced to a state of peasantry and that the ownership of the land is passing by mortgage foreclosure into the hands of a comparative few owners.

Moreover, the statement shows that about 50 per cent of the tenants had begun farming as hired men, which confirms previous writings about the "agricultural ladder," of which the first rung is employment as a hired man and the final rung is proprietorship. Some notable papers have been written of this ladder, and the influence of rising land values upon the length of time required to climb it. Opinion is divided as to whether or not rising land values have made it more difficult for tenants to become proprietors, inasmuch as rising land values have been usually accompanied by higher prices for farm products, lower production costs and lower interest rates. Obviously the conditions which produce rising land values are not altogether disadvantageous to tenants.

Professor George H. Tungln, of Iowa State College of Agriculture, delivered an address last year in which he presented the significant revelation, now supported by the 1925 Federal Agricultural Census, that there are entire counties in Iowa in which approximately 50 per cent of all tenants are near relatives of the landlords. He states further that in a 1923 study of 100 retired farmers in Wisconsin it was found that 26 had succeeded either fathers or fathers-in-law when they began farming, while 47 of them had in turn been succeeded by sons or sons-in-law on the farms, from which they retired.

This authoritative information goes far in showing that farm tenancy as it exists in the United States is a normal feature of ownership succession.

Grading and Stamping Beef

The Division of Marketing, Department of Agriculture, has been for some time conducting a service in grading and stamping beef carcasses, extended this year until it is rendered in nine cities and is exciting considerable interest in the trade. Its grading service began some years ago in connection with the department's market news service, and at first was for the benefit of several governmental organizations, notably, the United States Shipping Board, the Veterans' Bureau, etc. Later it was extended to include other large buyers of meat. It was frequently called upon to settle disputes between buyer and seller over the quality of meat. Originally the service consisted mainly in determining the grade at the point of delivery with reference to contract specifications.

From this beginning the service developed to the stamping of carcasses with a roller stamp which is run the full length, so that every cut bears the evidence of official grading. The object in view is to supply evidence of the true grade in such manner that it will be easily distinguished by every one handling it, including the individual consumer.

This service was quickly made use of by a number of dealers and consumers catering to a trade wanting choice beef and particular about obtaining uniform quality. The extension of the service was actively promoted by several persons interested in the live stock industry, notably, Mr. Alvin Sanders of the Breeders' Gazette, Chicago, and Mr. Oakleigh Thorne, of New York State, and eventually the Better Beef Association and the National Live Stock and Meat Board.

The service is now on a commercial basis, and, judged by the opinion of the dealers who have used it, is a success. It is performed only for dealers or large consumers who voluntarily request it, and it is said that none of these has ever discontinued it. Steamship companies, railroads, hotels, restaurants and institutions are especially interested. They buy in large quantities, want uniform high quality,

and want to be able to order by grade without previous inspection. An increasing number of retail dealers whose trade is largely in beef of the Prime and Choice grades, are taking advantage of this service.

Since May 2, 1927, the service has been maintained at Boston, New York, Chicago, Philadelphia, Washington, Kansas City, St. Joseph, Omaha and Sioux City, and in that time over 18,000 carcasses, totalling over 10,000,000 pounds, of officially stamped beef have been sold to the wholesale and retail trade. The Department states that existing facilities at these points have been taxed to the limit, but that they will be increased as needed. As yet the stamping has been confined to the two highest grades of beef, Prime and Choice steer and heifer beef, but it is stated that a strong demand has developed that it be extended to the Good grade. Resolutions to this effect have been passed by the Kansas City Retail Meat Dealers Association, the Illinois Retail Meat Dealers Association, the New York Retail Meat Dealers Association, and the National Live Stock and Meat Board. In New York City 34 meat dealers are availing themselves of the service.

The question is frequently asked whether standards of meat quality are sufficiently defined to enable the inspection service to give a practical assurance of uniformity, and the answer of experienced men is in the affirmative. They say that grading is based on certain characteristics visible to the eye, and that the expert grader compares the concrete case with his mental concept of what the grade should be, as readily as the cotton grader makes comparison with his mental concept of the standard grades of cotton. Some variation there may be between the work of experienced graders, but generally it is not difficult to maintain uniform mental concepts of the standards, and in this service it is assured by having a grade supervisor check the work of the graders frequently.

The proportion of all beef included in the grades Prime and Choice is comparatively small—only about 5 per cent, but between 20 and 25 per cent is classed as Good, the grade which may be next included.

Although the service was primarily instituted for the benefit of consumers, the live stock producers are taking a lively interest in its development, believing that it will have the effect of increasing or stabilizing the demand for the better grades. They say that the demand for these grades is so narrow that the market for well finished beef is unreliable and often very disappointing, and they believe this is so because inferior grades are often sold in substitution. To what extent the clientele which is willing to pay for the beef will be increased by official grading may be uncertain, but if those willing to pay for the better grades are assured of getting them the market for such classes of cattle probably will be considerably more stable than it has been. Certainly it is an improvement in merchandising service to have goods of every kind graded and sold on their merits.

A question having been raised about the ink with which the stamping is done, the Department has stated that it is of vegetable composition, entirely unobjectionable as food.

Money and Banking

Money rates during the past month have remained generally unchanged at moderate levels. Call loans on the New York Stock Exchange have been 3½ per cent almost the entire month, only rising to 4½ in the closing days in response partly to the usual preparations for the first of the month settlements. Bankers' acceptances have continued to be offered at 3¼ per cent for 90 day bills, and prime open market commercial paper at 4 per cent. Only Stock Exchange time money has shown a change, the rates declining slightly during the latter half of the month to 4 per cent for 60-90 day loans and 4⅛-4¼ for 4-6 months' money as against 4-4¼ and 4¼-4⅜ previously quoted.

Ease in money during most of November is seasonal, the month being frequently marked by a temporary dip in rates between the periods of early Fall firmness and the Christmas trade and year-end settlements in December. Trade demands, moreover, have tended to be relatively light all Fall due to the moderated pace of general business which has resulted in less than the usual expansion of commercial credit and currency.

Effect of Liberty Bond Redemptions

Besides these ordinary influences, the redemption of Second Liberty Loan bonds called for payment November 15 has been an additional factor tending to increase supplies of funds. Ordinarily, it might be expected that the Government would meet these obligations by calling in its balances from depository banks so that the net effect on the money market would be practically nil, the Government in effect merely paying out with one hand what it collects with the other. In the present instance, however, the presentation of Liberty bonds for payment has been more rapid than the Government had been led to expect, with the result that the Treasury was obliged to borrow a substantial amount from the Federal reserve banks. On the date of the last Federal reserve statement, November 23, this loan, though reduced from the peak, was apparently still in the neighborhood of $80,000,000, representing by so much the amount by which Government disbursements to that date had exceeded receipts. That money

rates have not gone lower in the face of such large disbursements is due mainly to the counterbalancing effect of gold exports which have partly offset the temporary excess of funds dispersed by the Treasury.

The Expansion of Member Bank Credit

With money continuing easy, commercial demands somewhat quiet, and stock prices rising, funds have flowed into the stock market and brokers' loans have shown a further expansion. On November 23 the total reached a new high level of $3,481,000,000, approximately $50,000,000 above the previous peak touched October 19, and $873,000,000 above the total a year ago at this time. Total loans secured by stocks and bonds, including brokers' loans at New York, as well as collateral loans to individuals throughout the country, likewise touched a new high point, while bank investments in securities rose sharply, due in part to the subscriptions to the new Treasury issue of November 15.

Reflecting these various increases, the total loans and investments of member banks rose approximately $350,000,000 during the first three weeks of November to $21,443,000,000, a new high level and over $1,600,000,000 above that of a year ago.

Of the latter increase it is significant to note that the entire amount has represented expansion in loans on securities or in securities purchased outright for investment, the volume of commercial loans remaining practically the same as a year ago. Eliminating, moreover, an increase of $382,000,000 in holdings of Government securities, approximately $1,218,000,000 of the total increase in member bank credit represents paper ineligible for rediscount or pledge at the Federal reserve banks. While there is no reason to believe that the amount of eligible paper in the hands of banks generally is yet dangerously low, the tendency obviously is one which should receive careful attention. The probability is that as the volume of business increases and commercial demand assumes more normal proportions the volume of eligible paper in the hands of the banks will show a corresponding increase.

The Money Market in December

With regard to the immediate future of money rates, the slight rise noted over the end of November is in accord with the usual monthly tendency and was influenced also by the Treasury's withdrawals from the banks for the purpose of extinguishing its loan at the Reserve banks. It is likely that the general tone of the market will be firmer in December than in the month just past as various factors are at work which should normally exert an influence in that direction. These include the continued outward movement of gold and the usual seasonal demand for currency for the holiday trade. With the Reserve banks, however, standing ready to exercise a stabilizing influence through their open market operations, it may be expected that whatever firming of rates occurs will be of moderate character.

Credit Conditions and Gold Movements

Credit conditions in Europe have changed but little in the past month. The Bank of England has failed to increase its reserves materially, other buyers taking the arrivals from South Africa. Interest rates in that market therefore have been maintained.

At the first of November money was so tight in Berlin that a further advance in the discount rate from 7 per cent was predicted, but conditions have relaxed since, and a higher rate is not now expected. The Reichsbank by taking over the proceeds of the recent Rentenbank foreign loan has raised its reserve of gold and eligible exchange to the highest point in recent months, and the gold holdings are at the highest point since the war.

In Paris the short term money market lately has been reported a little firmer, but there is still a plethora of funds for loans of that class. Strange to say, there continues to be a scarcity of money in the long term market, although in well informed circles the opinion is now positively held that there is no longer any reason to doubt that the franc will be permanently stabilized at the present rate.

The gold standard has been established in Poland, all restrictions upon foreign exchange transactions having been removed. By means of the recent foreign loan of $72,000,000 the National Bank of Poland, which is now the sole source of paper currency, has been placed in a strong position and the beneficial effects upon the business situation are marked. Indeed the situation has been distinctly improving over the past twenty months, deposits of all credit institutions having increased from 737,000,000 zlotys at the end of March, 1926, to 1,482,800,000 at the end of June, 1927. Of the proceeds of the loan placed in the United States $15,000,000 are said to be destined for early transfer to Warsaw and more may follow. It is understood that the Bank of Poland also has been obtaining gold in London. The discount rate has stood at 8 per cent since May 13 last.

The Bank of Finland discount rate was reduced on November 24 from 6½ to 6 per cent. This institution is in strong position and the country is prosperous.

Two other discount rate changes have been made in Europe in the past month, that of the National Bank of Belgium from 5 per cent to 4½ and that of the National Bank of Norway from 4½ to 5, the first change in the latter rate since October 27, 1926. That the

exchanges had been running against Norway recently is evident from the fact that its exchange reserves, inclusive of those held jointly by the Bank and the Government, declined from 113.5 millions of kroner in September to 78 millions at the end of October. On the other hand, the exchanges have been in favor of Belgium for the past year, owing to a return of capital since the stabilization of the currency—a movement similar to that which has made money easy in Paris. The gold reserve of the National Bank of Belgium on November 8 amounted to 3,455,000,000 francs, against 2,831,000,000 at the corresponding date of 1926, and the note cover ratio was 54.59 per cent.

M. Franqui, President of the National Bank, in an article which appeared in an economic newspaper on the occasion of the anniversary of the stabilization of the Belgian franc, about one year ago, analysing the question of monetary stabilization, writes:

> If we compare the figures of our trade abroad and of our trade balance with those of a year ago, if we consider the rates at which rente and various shares are quoted on the Bourse, if we compare the index figure in Belgium with that in other countries, if we calculate the proportion in which our paper in circulation is covered by bullion, we see in every sphere that the feeling of security which permits our Belgian people to work with confidence is bearing fruit.

Sterling exchange has continued to rule high in terms of dollars during the past month, causing talk of possible gold shipments from New York to London. The explanation for the unusual condition of a high rate at the season when British imports from this country are largest, seems to be mainly in the loans which Europe has been obtaining in this market. The fact that current interest rates have been higher in London than in New York has afforded an inducement for the transfer of the proceeds of the loans to that market for temporary employment, pending use in the borrowing countries. It is evidence of the strong creditor position of this country, by reason of accruing interest and a favorable trade balance, that notwithstanding our enormous tourist expenditures during the past season and an unprecedented volume of foreign loans, practically no gold has gone to Europe.

Up to and including the month of September, movements of gold in 1927 between the United States and the rest of the world resulted in net imports into this country of $135,000,000. During October gold stocks decreased $34,000,000, due to exports and ear-marking for foreign account, and in November the large shipments to Brazil and Canada, together with the engagement for Poland, raised the net outward movement of the last two months to approximately $100,000,000. Taken in connection with the high sterling rate, these shipments have been viewed in some quarters as indicating that at last perhaps the long talked of redistribution of gold had begun. It is evident, however, that the heavy lending abroad by this country, which in 1927 will surpass all records, has been the main factor in the situation. Moreover, the exports have not been determined by exchange rates alone, the acquisition of gold by Argentina in September and October, and by Brazil and Poland having been in each case prompted by the policy of resuming gold payments. The movement to Canada, which thus far has approximated $17,000,000, is a seasonal one, grain-marketing causing a rise in Canadian exchange above the gold shipping point. A return movement usually follows a few months later.

The loss of lending power in the member banks resulting from these gold exports has been fully made good by fresh supplies of funds resulting from Treasury operations and purchases of securities by the Reserve banks. The latter operations have illustrated the manner in which the Reserve banks are able to protect the market against stringency resulting from gold withdrawals. The increase in their holdings of securities, including their loans to the Treasury for redemption purposes, in the past month has equaled the gold exports.

On the whole, the gold stock of the United States has not increased in the last three years. The Treasury estimates are for $4,570,000,000 on December 1, 1924, and $4,548,000,000 on November 1, 1927, while the exports of the past month have been nearly $70,000,000. There is, however, no present prospect of an export movement large enough to seriously disturb the credit situation, particularly in view of the large reserve of credit-making power in the Reserve banks.

The Bond Market

Despite a volume of bond offerings during the present year which promises to overtop the volume for any like period in history, the bond market is approaching the year end in an unusually healthy condition. Prices during the month displayed strength in most departments. The volume of transactions increased over a broad field and many new records were established in both foreign and domestic issues. The amount of investment money to be made available at the year end through dividend and interest disbursements and bond maturities promises to reach record proportions and should furnish strong market support. The Dow Jones averages reached the highest levels during the month ever attained since they were established. The average for forty listed domestic corporate issues (10 high grade rails, 10 second grade rails, 10 industrials and 10 public utilities) on November 25th was 99.13, as compared with a record high reached during the month of 99.23 and with 95.97 on November 26th a year ago. In the table of averages

both high grade legal rails and second grade rails made new highs, while industrials and utilities were slightly under their records. The increase in the average of second grade rails to the highest level in fifteen years testifies not only to the steady improvement in the railroad industry during recent years but as well to prospects that weaker roads will eventually be linked with stronger systems.

Easy money, which in the opinion of authorities will in all probability continue with but slight modification well into the new year, stands out as a fundamental cause for the continued firmness in investment values. The reinvestment of funds made available through Government financing operations also is a strong stimulating influence.

United States Securities

With the retirement on November 15th of the outstanding balance of Liberty Second 4¼s, the Treasury Department has handled its last large financing problem until the Third Liberty 4¼s fall due on September 15, 1928. There are about $2,150,000,000 of Third Liberties still outstanding, but it is believed that this total will gradually be reduced during the coming year through exchange offers and sinking fund purchases the same as was done prior to retirement of the Second Liberties. Outstanding Third Liberty 4¼ per cent bonds should reach easily manageable proportions by the due date.

Following a series of financing operations which had reduced outstanding Second Liberty 4¼s to $732,000,000 by November 15th, redemption of the issue was accomplished on that date by cash payments or by conversion into 3⅛ per cent Treasury seven-months' Certificates, about $400,000,000 of which were publicly offered on November 6th. This financial operation was carried out smoothly, with a minimum of effect on the money market. In spite of repeated warnings from the Treasury Department that interest on Second Liberty 4¼s would cease on November 15th, about $163,000,000 have not yet come in, and a fair amount may not come in for years. The Second Liberty issue was one of the most widely distributed of all the War loans. A large amount is outstanding in the hands of small holders, many of whom apparently will not realize until May 15th next, when they present a coupon for payment, that their investment is no longer drawing interest. The demand for long term Treasury Certificates following the release of funds from Second Liberties forced quotations on these issues to new high levels. The volume of trading is being well sustained and there is little likelihood of any substantial easing in prices so long as Second Liberties continue to flow in for redemption.

Municipals

The municipal market during the month enjoyed renewed activity at advancing levels. According to the Bond Buyer's municipal index, the averages for the high grade list have overtopped the old 1917 high mark, when municipals sold at levels not since equalled. Looking only at the advance in the general bond market since last Spring, municipal prices even now appear out of line with the rest of the market. But there are other factors to be considered. The inability of the municipals to keep pace with corporation bonds and high grade rails is a direct result of supply and demand. A scarcity is developing in Governments, rails and a few other groups, while new municipals continue to appear about as fast as they can be absorbed. It may be, therefore, that the normal price relationship between municipals and other groups is quite different today than it was ten years ago when a relatively smaller volume of municipal bonds was outstanding. As the general bond market moves forward under the stimulus of easy money and a great volume of investment funds, municipals must of course feel the effect.

Public Utilities

Another evidence of the broad and steadily expanding market for good public utility bonds appears in a recent research study covering the investments of twenty-five of the leading life insurance companies in the United States and Canada. In a series of annual changes for the five year period under review, the proportion of public utility bonds to all bonds held in life insurance portfolios has gradually increased from 7.77 per cent in 1921 to 20.01 per cent at the end of 1926. This increasing recognition of the merits of public utility investments by life insurance companies is but a reflection of the growing importance of the public utility industry in the eyes of shrewd investors. A decade or two ago public utility bonds were nearly unknown to most investors. The present ranking of the public utilities both as regards their contribution to the public welfare and their absorption of new capital, has given public utility bonds a well merited place in the investment accounts of a growing number of institutional and private investors.

The market on public utility bonds during the month was active with a rising tendency in the electric light, power and gas groups. Among the convertible issues, Brooklyn Union Gas Convertible 5½s assumed a position of prominence in sympathy with the strength of the stock into which these bonds are convertible after January 1st, 1929. Although there is a possibility that the great volume of new utility financing scheduled for the near future may retard the further advance, much of this new financing is for refunding purposes and to

that extent will not augment the volume of outstanding securities.

The leading public utility issue appearing during the month was that of the Cities Service Power and Light Company—$45,000,000 of 5½ per cent Gold Debentures due in 1952 and offered at 98 and interest to yield 5.65 per cent. This company is one of the important units in the power and light field and through its controlled companies renders service to over five hundred communities in sixteen states whose widely diversified industrial activities afford unusual stability to the earning power of the group as a whole. The growth of the business is indicated by an increase in consolidated gross earnings from $37,182,421 for the year 1922 to $46,764,206 for the year ended June 30, 1927. This company is one of the important subsidiaries of the Cities Service Company.

Foreign Issues

Activity in the foreign list covered a wide range of issues but lacked definite trend. German issues developed some weakness in response to the note of the Agent General of Reparations but later recovered a fair share of their losses. South American issues generally trended upward as did also bonds of the Mexican Government. French and Belgian issues were slightly lower and Italian Government bonds were strong. A feature of the South American group was the heavy demand late in the month for Peruvian 7½s of 1940 and 7s of 1959, both of which sold at new high prices predicated on the announced plan for new financing including retirement of higher coupon rate issues.

The most interesting new foreign offering during the month was the $50,000,000 International Match Corporation Twenty-year Sinking Fund Debenture 5s, proceeds of which will be used indirectly for retirement of 8 per cent Dollar bonds floated in the United States some years ago by the French Government. The International Match Corporation, a subsidiary of the Swedish Match Company, is acquiring from the parent company $50,000,000 of a total issue of $75,000,000 French Government Forty-year 5 per cent Gold Bonds which the parent company has purchased from the French Government. The French Government in turn will apply the proceeds towards the retirement of its entire outstanding issue of Twenty-five-year External Gold Loan 8 per cent Sinking Fund Bonds—$75,000,000 in all. This loan was made on terms favorable both to the Swedish Match Company and the French Government, Swedish Match obtaining a long term arrangement providing for cooperation in the match industry, and France on the other hand thus being enabled to replace an 8 per cent coupon loan with one carrying a 5 per cent coupon with an annual saving of $2,500,000 in interest. The bonds were priced at 98½ and interest to yield about 5⅛ per cent and were quickly subscribed.

Reparation Payments

On September 1 last Germany entered upon the third year of reparation payments under the Dawes Plan, having met all obligations to that date fully and punctually. The current annuity year will complete the approach to the "standard" annual payment of 2,500,000,000 marks, or approximately $625,000,000, which must be maintained for a period as yet indefinite, plus a supplementary sum to be determined by a "prosperity index." The first four years of payments have been generally regarded as a period more or less experimental, and with the first standard year now less than twelve months off interest centers more than ever in the workings of the plan. Moreover, interest has been stimulated recently by an exciting public discussion in Germany over that country's financial situation and policies.

The Dawes plan has been the corner stone of European reconstruction. Before its adoption uncertainty overhung the situation; after its adoption came industrial recovery in Germany on a sound currency basis, regular reparation payments according to the schedule, the Locarno treaties, Germany's entrance into the League, the restoration of the gold standard practically throughout Europe and elsewhere, and a general restoration of confidence and improvement of industrial conditions. No wonder interest is alert to a discussion of conditions which may vitally affect its future operations.

The Agent General in his report for the second annuity year, and again in his interim report, dated June 10, 1927, had commented critically upon the rising expenditures of the Federal, State and Municipal governments on the ground that the tendency if continued would impair the ability of the Federal Government to meet the reparation obligations. However, he closed his comments of June 10 with this statement:

> At the same time, the essential stability of the budget remains unimpaired, and there is no reason to doubt that it can be successfully maintained, if the German Government will take the normal precautions that are necessary in its own interest.

The comments of the Agent General were well received in responsible quarters, the reception indicating that a substantial body of German opinion held them to be in the interest of Germany. Continued borrowing, however, both at home and abroad by public bodies, together with certain proposals pending in the national parliament involving increased expenditures, led to the preparation recently by Mr. Gilbert of a lengthy memorandum to the Finance Minister, in which the former set forth his views in a very definite manner. It

was not at first made public, but, its existence becoming known, publication followed.

The Agent General's Recent Memorandum

Mr. Gilbert began by saying that he presented his views in the hope of rendering service "to the German Government and to the German economy, as well as to the international situation," and that he approached the problem from the standpoint of the Experts' Plan, "that what is in the interest of the German economy is also in the interest of the execution of the Plan." His main proposition was that the German authorities were "developing and executing constantly enlarged programs of expenditures and borrowing," the effect of which was "an artificial stimulus to economic life," causing increased cost of production, increased prices and increased costs of living." "Manifestly," he said, these developments tend to "diminish the capacity of the German economy to compete for export."

He referred, as he had done previously, to the taxation system under which levies are concentrated in the Federal Government and the States derive their incomes in a large part from the Federal treasury by apportionment, and also to the State borrowings, saying:

> The result is a general lack of effective control over public spending and public borrowing. In consequence unsound public finance is increasingly prevalent in Germany; and the money which is so badly needed for the development of German agriculture and industry is being absorbed, through taxes and public loans, in a scale of public expenditure which seems to be incurred without regard for the loss of liquid capital which Germany has suffered and the urgent need of recreating this capital through economy and careful spending.

His strong appeal throughout the paper was for economy in public expenditures. In another place he said:

> The question underlying State and communal borrowing is not whether individual loans should be placed in the domestic market or in the foreign market, or at short or long term, but whether they should be placed at all. To divert the borrowing of the States and communes from one market to the other, or to refuse it in one form and permit it in another, does not go to the root of the difficulty.
>
> It is recognized, of course, that the Reich does not control the States and communes in these matters. But when the States and communes go into foreign markets to finance their budgetary expenditures and internal improvements, they raise fundamental questions of foreign policy which have the most direct interest for the Reich.

He referred to the efforts which the Federal Government has been making over the past two years to supervise the foreign borrowing of the States and communes, and urged that "a new and truly effective supervision, based primarily upon the principle of controlling public expenditures, is needed at this time, both in the interest of German credit and to safeguard Germany's economic recovery against the dangers of overstimulation and subsequent reaction as a result of overspending and overborrowing by the public authorities."

The Agent General does not refer to German borrowing abroad except in connection with public expenditures and particularly expenditures which for the present at least are unnecessary. As to the influence of such borrowing upon reparation transfers he says:

> The payment of the stipulated annuities to the Agent-General for Reparation Payments at the Reichsbank constitutes, it is true, "the definitive act of the German Government in meeting its financial obligations under the plan"; and the payment of these sums is amply secured by the assigned revenues and other specific securities. But the responsibilities of the German Government do not end with the internal payments. The experts' plan, though it put the transfer of reparation payments in the hands of the Transfer Committee, recognized clearly that the problem of transfer would depend in large measure upon conditions outside the control of the Committee. It placed a very definite responsibility upon the German Government by providing that "the German Government and the Bank shall undertake to facilitate in every reasonable way within their power the work of the Committee in making transfers of funds, including such steps as will aid in the control of foreign exchange." The experts also emphasized in the strongest possible language the dependence of the stability of the German exchange upon Germany's balance of payments, and, in the long run, upon the course of German imports and exports. To the extent that German exports are hindered by obstacles interposed from without, other countries must bear the responsibility; but upon the German Government itself must rest the responsibility for actions of its own which tend artificially, by over-stimulating imports and hindering exports, to restrict the possibilities of transfer.

The effect of foreign borrowing which he particularly mentions is that of facilitating unnecessary imports. That he was not objecting to all foreign borrowing is evident from the language above quoted touching "the money which is so sorely needed for the development of German agriculture and industry," and also his reference to the part which foreign loans have already played in the revival of German industry. As to this he says:

> It is now nearly four years since the first stabilization of the currency, and over three years since the adoption of the experts' plan. During this period Germany has made remarkable progress. She has reestablished her credit at home and abroad, her industries have been reorganized and her productive capacity largely restored, her supplies of raw materials and to some extent her working capital have been replenished, and the general standard of living has greatly improved. This has been achieved primarily through the industry and energy of the German people, but the people of other countries have also cooperated by making their savings available in liberal measure for the rebuilding of the German economy. It would be deplorable if what has been accomplished should now be imperilled by short-sighted and unsound internal policies.

Mr. Gilbert concludes, as in previous comments upon the same tendencies, with the statement that "the situation has not yet become critical," and that "the German Government still has it within its power, if it will act in time, to check the dangers which now threaten, and to bring the German economy back again to sound condition."

A few newspapers have resented the act of the Agent General in offering the Memorandum as interfering in the internal affairs of Germany, but this view is not general. Herr Marx,

the Prime Minister, has publicly defended the Agent General. Dr. Schacht, President of the Reichsbank, is outspoken in supporting him, holding that the German people must be scrupulously careful to keep clear of any possible responsibility for a failure of reparation payments. Leading German industrialists have expressed themselves emphatically to the same effect.

The subject was considered at a meeting of the Cabinet, which the President of the Reichsbank and the head of the German Railways were invited to attend for consultation. Following this session a statement was given out which has been referred to by the Berlin correspondent of the London Times as designed to tranquilize the discussions of foreign loan policy by an authoritative pronouncement, and to strengthen foreign confidence in the efficiency of the Foreign Loan Committee. This correspondent, commenting upon the public reception of this statement goes on to say:

> The masses of comment on it indicate that, although the formal and unanimous official reaffirmation of the necessity of further foreign loans for urgent productive purposes is welcomed, the dangers of unnecessary, extravagant, and unproductive expenditure by public bodies are becoming generally recognized.
>
> The communiqué declared that such expenditure, "whether out of foreign loans or other sources," must by all means be avoided. The words "other sources" are taken to refer to municipal evasions of control by obtaining the use of foreign capital borrowed by industrial undertakings, or raising money in the limited home market which could be put to better uses. It has even been suggested that so long as the political issue between centralism and federalism forms such a big obstacle to the administrative control of local expenditure, the activities of the foreign loans committee should be extended to cover the entire loan operations of the public bodies, internal and external. The opinion is gaining ground that, whatever form the eventual reparations crisis may take, the German case can only be strengthened by the suppression, in the meanwhile, of blatant extravagances. This view that Germany must not lay herself open to the reproach that she has made the raising of the Dawes annuities difficult, even though the impossibility of their transfer may seem inevitable, found expression again in a speech by Herr Köhler, the Minister of Finance, at Karlsruhe yesterday.

The Finance Minister, Herr Köhler, who has a degree of responsibility in some of the legislation and proposals criticised, prepared a lengthy answering memorandum addressed to the Agent General. He urges that the borrowing by States and Municipalities has been generally due to the fact that they own public utilities, upon which expenditures may be properly deeemd to be "productive" in the sense that the local governments derive revenues from them. He gives a list of such enterprises which have been financed by loans. He frankly attributes much of the expenditure to the war and its social and political consequences, and intimates that too rigid an attitude on the part of the Federal Government would not conduce to the domestic unity which is considered essential. He doubts that the matters to which the Agent General calls attention are the principal cause of the present tension in the economic situation, but states that the Government is fully alive to the necessity for economy. He agrees that the relations between the States and the Federal Government, which were the subject of criticism by the Dawes Committee require revision, but pleads that conditions as yet have been unfavorable to reaching agreement upon a new system. He raises no real issue with the Agent General's contentions.

The immediate outcome of the episode is that the Committee which supervises the applications for permission to negotiate foreign loans has adopted more stringent regulations. This Committee has authority only over borrowings abroad in behalf of or guaranteed by subdivisions of the Government. It is now stated that such loans must be not only for immediately productive purposes, but must definitely contribute to the general economic development of the Reich (the German State), either by helping to increase exports or decrease imports, or in some other way; local interests of themselves not being sufficient. The Committee consists of a representative of the Minister of Finance, as Chairman, a representative of the Minister of Foreign Affairs, one each of the Minister of Economic Affairs and the Reichsbank, two experts representing the Federal States, namely, the Presidents of the Prussian and Bavarian State banks, and a representative of the State immediately concerned. Decision is by majority vote. If the decision is adverse, it may be reconsidered at a meeting at which the Ministers of Finance and Economic Affairs and the President of the Reichsbank are present in person instead of their deputies.

Priority of Transfers

As a result of all this discussion speculative comment has developed as to whether in the event of the amount of exchange available for German payments abroad being insufficient to cover payments on both German loans and reparation obligations, payments upon loans will take precedence, or vice versa.

Up to this time the reparation transfers other than payments in kind have been practically all accomplished by means of the loans, German commodity trade having shown a large adverse balance over the last three years. This fact of itself naturally gives the loans a strong claim to consideration at the hands of the Reparation authorities and suggests the interest which the latter have in the maintenance of German credit. There is no reason to doubt that they appreciate not only the equities on the side of the lenders who have supplied the capital which has so speedily placed Germany on her feet, but the manner in which their own situation is involved with theirs. The fact is clear that Germany was in

no condition to make reparation payments without the aid of foreign capital, and that the great body of foreign capital which has been borrowed has been expended in ways which increased the productivity of her industries and her ability to increase exports or decrease imports, besides providing employment to her people and increasing their ability to pay taxes, all of which redounds to the advantage of the reparation creditors. Mr. Gilbert in the quotation given above has said as much.

The foreign loans have not only furnished the exchange by which cash payments have been made, but by making it possible for German savings to be devoted to the recuperation of the domestic industries have permanently strengthened the German economy.

There are persons, no doubt, who begrudge this building up of German productive capacity, but it is a necessary part of the Dawes plan. The latter clearly contemplates that reparations shall be paid by means of an excess of exports over imports, and that to this end German productive capacity must be restored and increased if need be. As the first step of reconstruction the Dawes Committee itself provided for a foreign loan to finance the Reichsbank.

Without the aid of outside capital, Germany would have been obliged to accomplish recuperation out of her own resources, without working capital, and at best the payment of reparations would have been indefinitely deferred. Attempts to have forced collections from her under such circumstances would have deferred substantial payments still longer. It is evident, therefore, that at least to the extent of loans which have strengthened the German economic system, the foreign borrowings have improved and not injured the reparation creditors. They have advanced the latter toward a realization of their hopes, and incidentally by restoring Germany to something like a normal position in the economy of Europe have contributed largely to the improvement of conditions in other countries.

Moreover, the case for the constructive creditors does not rest wholly upon what they have done for the betterment of the position of the reparation creditors to this time, or what they may do in the future. There is also to be considered what would be the position of the reparation creditors if Germany's credit abroad should be ruthlessly broken down before the country has acquired the supply of capital which will enable her to compete effectively in the markets of the world and thus maintain an excess of exports. Her eagerness to borrow at the present high rates is evidence that her capital supply is still below the normal level, and her foreign trade statements show that in fact she has no excess of exports. How then, under the theory of the Dawes plan, can payments continue if foreign borrowings cease?

The Technical Argument

The technical argument in behalf of priority for reparations rests upon Article 248 of the Treaty of Versailles, which gave the Reparations Commission a prior lien on all the assets of the German Reich and its component States. This presumably applies only to publicly-owned property; not to private property, except through the methods of taxation. Undoubtedly the Governments of the States are directly involved with the Federal Government as debtors. It is urged that the fact that the foreign loan of $200,000,000, provided for in the Dawes plan, was specifically given priority over reparation payments implies that no other loans have such priority, but if this claim be allowed as good so far as loans of the States and other subdivisions of the Government are concerned, there is reason to believe that there was no such intention as to loans negotiated by business corporations or individuals. Corporations make a direct contribution to the payment of reparations under the plan, and the entire scheme of the plan is to leave private enterprise free to work under the ordinary incentives to build up industry and enlarge production and trade to the end that reparations may be paid. The Experts' report (page 38) says: "Our plan is strictly dependent upon the restoration of Germany's economic sovereignty."

It is not the theory of the plan that enterprise shall be hampered. Business men borrow money for the purpose of making a profit on its use, and there is no reason to suppose that the authors of the plan intended to impose any condition that would prevent a German corporation or business house from using foreign capital for that purpose. Of course, a rule which would forbid the payment of interest or principal upon such borrowing until all reparation claims were first satisfied would completely bar such transactions and in the state of the German economy which the Experts were contemplating must have inevitably delayed the country's recovery.

The Control of Exchange

The agreement provides that "the Government and the Reichsbank shall undertake to facilitate in every reasonable way within their power the work of the Committee in making transfers of funds, including such steps as will aid in the control of foreign exchange." "In the event of concerted financial maneuvers, either by the Government or any group," for the purpose of preventing transfers, the Transfer Committee is authorized to "take such action as may be necessary to defeat such maneuvers," but the tenor of the agreement throughout shows a clear purpose that German busi-

ness shall be allowed to function freely, and that reparation transfers shall be made as "in the judgment of the Committee, the foreign exchange market will permit, without threatening the stability of the German currency."

Let us consider in view of this purpose how far the Reparations, or even the German, authorities could reasonably go in the control of foreign exchange? Foreign exchange is created by the exportation of goods, and originates with firms and corporations engaged in trade. Much of it is created by the large industries which themselves have borrowed abroad for the purpose of financing their operations—the electrical industries, iron and steel and coal industries, the potash industry, and others. Would it be reasonable to refuse to allow them to use such share of the exchange created by their own enterprise in foreign fields as might be required to meet the interest and principal of their own foreign debts? The answer to this question will cover most of the foreign debts owing by German industries.

The plan recognizes that imports will be necessary and clearly contemplates that they shall be paid for by exchange created by exports. Even under a system of rationing foreign exchange, imported materials for the industries and foodstuffs for the population would have to be paid for before exchange could be devoted to reparation payments. This is not a question of technical priority but of practical policy, and for the same reason it surely would be allowable to pay interest and principal of foreign loans the proceeds of which have been used to increase agricultural production and thereby lessen importations of foodstuffs. Thus all agricultural loans may be considered out from under any possible ban, and practically all industrial loans as well. It may be doubted if there are enough foreign loans left to haggle over, when the probable complications of any policy of rationing exchange are considered.

Maintenance of the Gold Standard

Is it possible to maintain the gold standard in any country unless the currency-issuing authority supplies gold or foreign exchange freely in exchange for the currency and to satisfy all the legitimate needs of commerce? That always has been the test of whether or not a country was doing business on a gold basis, and when gold or exchange could not be had for the currency at par, or for an ordinary exchange charge, the currency always has gone to a discount—or as usually stated in that country, gold has gone to a premium.

According to the Dawes Report the plan contemplates that the notes of the Reichsbank "shall be payable to bearer at the head office of the Bank in Berlin on presentation" in (at the option of the Bank) German gold coins, gold bars, or demand drafts payable in gold or in foreign currencies at current market gold prices.

This compulsion on the Reichsbank, however, has not yet been put in force. The Committee expressed the view (Annex 1, Section XII) that "at the inception of the Bank" (when convertibility did not exist anywhere in Europe) "conditions will not be favorable for the application of the above rule of convertibility; in this event, this rule may therefore be temporarily modified." In accordance with this suggestion the Bank law provides that the rule will come into effect upon the passage of concurrent resolutions by the managing board and general Council of the Bank. These have not yet been passed. Nevertheless, the Bank has been voluntarily providing gold or foreign exchange to meet current demands, and for it to refuse to do so would be to abandon convertibility, the means by which parity is maintained and the fundamental objective of the currency reform.

It is true that Governments have exercised control over the exchanges. The Reichsbank maintained control for a time. The Italian Government is doing so at the present time. When this has been done, however, it has been for the purpose of protecting a currency which was not very surely established against the raids of speculators. It is possible to require exporters to sell the exchange which they create to the Government, but this is taking the business affairs of the country into the Government's hands, and unless all legitimate wants are satisfied business will suffer.

The Dawes Plan was designed to carefully safeguard the currency. It not only contemplates that the currency in circulation shall be readily convertible into gold or exchange, but distinctly provides that reparation collections as they accumulate in the Reichsbank shall be converted into foreign exchange only as this can be done without menacing that convertibility. Under the circumstances it seems highly improbable that the Reparations authorities ever will attempt to prevent German business from obtaining the exchange needed to meet its legitimate obligations. Efforts to restrict borrowing within the limits of sound economic policy of course are commendable from every standpoint.

The Experience of France

The experience of France in recent years with the policy of restricting transfers of capital from that country illustrates how difficult it is to make such policies effective, and also the tendency of such policies to aggravate the very conditions sought to be controlled. In the years when the French currency was sinking in value and the most stringent measures were in force to arrest the "flight from the franc," it was common knowledge that capital

was leaving the country. Nobody, however, realized how large the movement had been until the return flow began about one year ago. Then the financial world was astonished that accumulations of foreign exchange at the Bank of France in six months aggregated over $1,000,000,000, practically all believed to represent returning capital which had been temporarily removed from the country. Legal regulations are a poor reliance for keeping capital in a country when confidence in the currency and in the laws affecting capital is disturbed.

A Statement from Paris

Since the foregoing discussion was prepared the New York Times has published a lengthy cable dispatch on the subject from its Paris correspondent, Mr. Edwin L. James, which conveys what doubtless is an authoritative statement of the attitude of the French Government. A portion of the dispatch, including the statement, is reproduced herewith:

PARIS, Nov. 22.—On the issue of the relative position of German foreign loans and reparations with respect to transfers of money from Germany abroad, the attitude of France may be stated as follows:

"American subscribers, or rather the banks which assume responsibility for loans, should not lose sight of the fact that so long as they lend money to Germany for her economic recovery, for the employment of her labor and for promotion of her industry, the Allies, and France particularly, are in agreement and even satisfied.

"As long as the matter remains within these limits, which is to say, as long as the Commission for Reparations and its representative at Berlin make no objections, American subscribers may be reassured. From the moment that these loan operations no longer constitute an aid to production but fall into the category of nonproductive loans, the said operations become doubtful and dangerous, for in case of default on reparations and in case of bad faith on the part of Germany the Allies are entitled to invoke their privileges under Article 248 of the Treaty of Versailles, which gives them a lien on Germany which may be characterized as a first mortgage."

Reading between the lines of the above statement, which may be taken as representing accurately the position of the French Government—most interested in reparations—it appears that American subscribers to German loans may have no fears until either Mr. Gilbert or the Reparation Commission or the Allied Governments themselves condemn the nature of German loans newly contracted.

This means in effect that the French will not invoke reparation claims to interfere with the service of German foreign loans until loans fall into what is regarded as the non-productive class and until after the Allies have given due warning.

This does not mean that the French believe Germany has not contracted unnecessary loans. They agree with Dr. Schacht that she has done so and that continuance of such a program would imperil reparations. But now, after Mr. Gilbert's warning, arrangements have been made which in effect require his approval of all future German foreign loans, and apparently the French are quite willing to leave the situation there for the present.

When the issue first arose, considerable pressure was brought to bear on Premier Poincaré to issue a declaration that France considered reparations came first in claims on such transfers as the German economic machinery was capable of making. But after study the French leaders have come to the conclusion that the matter is not so simple as that, since the foreign obligations of Germany of all classes have interrelation and may be said to stand or fall together.

In other words, putting it frankly, if Germany defaulted on the service of her foreign industrial loans her exchange situation would quickly get to be such that, under the terms of the Dawes plan, cash transfers for reparations would become impracticable.

Therefore the inquiries which have been made by French experts have shown that it is not practicable to give a black or white answer to the question as to which German debt comes first. Reserving their theoretical rights under the treaty, the French prefer to take what they regard as a practical view of the situation—namely, they do not object to Germany's borrowing the money she needs, but will object if Germany borrows money she does not need and the service of which would interfere with reparation payments. Thus it may be seen that the French have come very near to meeting what Dr. Schacht has described as a fair view of the situation.

The Reparations Plan on Trial

The warnings uttered by the Agent General undoubtedly have had a desirable effect in bringing on a full discussion of the situation. The authorities and leaders of Germany have been aroused to a sense of their responsibility not only for the proper use of funds borrowed abroad, but for the maintenance of sound, conservative and scrupulously correct policies throughout the nation's internal economy. In all countries expenditures by the various branches of the Government must be regarded as in a different category from business expenditures. It may be assumed that the latter will be governed, at least to the extent of the proprietor's ability, by an intention to obtain an adequate economic return upon all outlays, but this is not certainly true of governmental expenditures, hence the need for more careful attention in the latter fields.

The Plan, to which both sides are committed, and which thus far attests the sagacity of its authors, must have a trial which will satisfy the reasonable people of all nationalities. Germany is interested in making a record so clear that if she has any pleas to make in the future for mitigation of the terms of the agreement the merits of her case will not be obscured or prejudiced by any acts of her own which throw doubts upon the results of the trial. On the other hand, German industry and business are entitled to have the use of all the means which are necessary to success in the world competition in which they must engage. As Mr. Gilbert says, "to the extent that German exports are hindered from without, other countries must bear the responsibility." For the creditor countries to interfere with the legitimate use of credit by German business would involve them in responsibility.

The plan was intended by its authors to gradually clear up in the course of actual operations all of the uncertainties in which it was thought to be involved. The Experts believed that it would "adjust itself to realities," but of course it was a part of the plan that all parties to it would keep their minds open to realities. They are bound to accept the verdict of results, as produced by the free, untrammelled workings of the plan.

It is probably fair to say that general opinion at present is that Germany will be able to produce and accumulate in the Reichsbank the sum of the full standard annual payment, 2,500,000,000 gold reichsmarks, and that the real test of reparation payments according to the schedule will come upon ability to transfer. This undoubtedly is where the Committee's own doubts were chiefly centered.

The Experts thoroughly appreciated from the beginning that the capacity and willingness of Germany to produce commodities and services comprised only one side of the equation which was to be worked out, and that on the other side there must exist a market for these offerings. They are tendered direct to the creditor countries, and in so far as reparations are taken in direct deliveries of this kind the problem of exchange is a factor. Thus far more than one-half of the payments have been made in deliveries in kind or other payments within Germany for which the mark currency could be used. In the third year these fell slightly under one-half of the total 1,500,000,000, the internal payments being as follows:

	Marks
Deliveries in kind	616,969,000
Armies of occupation	73,522,000
Costs of Inter-Allied Commissions	6,847,000
Miscellaneous payments	1,286,000
	698,524,000

As the aggregate amount of payments increases it remains to be seen what proportion can be accomplished in German currency as the sum of payment increases.

Direct deliveries of commodities and services on reparation account meet with opposition in the creditor countries from domestic industries which complain that they are injured. Thus the newspapers have told recently of a contract let by one of the creditor Governments to a German company, on reparations account, for electrical transmission cables, which resulted in such a vigorous protest that the Government felt constrained to let a similar contract to a domestic company.

Moreover, the business interests of the creditor countries not only view with disfavor reparation deliveries in their own countries, but regard a forced growth of German exports in neutral markets as a menace to their own trade. The London "Nation," referring to the fact that Germany as yet has acquired no export surplus, says:

> Nor is there anything which British business men would more dislike than to see Germany acquire a large export surplus, meaning as this must mean a large increase in her exports of coal, textiles, iron and steel, chemicals, and machinery.

This attitude indicates that considerations other than the collection of reparations enter into the situation. Obviously Germany cannot be held responsible for such conditions, or for tariff or other artificial barriers which may be raised against her goods in foreign countries. These are conditions which the Dawes Committee foresaw, but the importance of which they could not accurately estimate.

Over and above direct sales to the creditor countries which in whole or in part apply on reparations account the remainder of the payments must be made in exchange, created in trade, by tourists, and in the variety of private transactions, including loans. The main consideration is that they cannot be forced; such transactions originate with individuals, prompted by their own purposes. Governments may take advantage of them, prophets may speculate upon how much they will amount to, but it remains to be seen what the volume will be.

It is not allowable to suppose that Germany can continue for an indefinite number of years to borrow abroad at the rate at which she has been borrowing. This is not to say that her aggregate resources do not justify a much greater amount of indebtedness than as yet she has incurred, but so far as private borrowing is concerned, it must be considered that the number of corporations or borrowing units of sufficient resources to enable them to obtain credit in foreign markets is comparatively few. Borrowing by subdivisions of the Government has now been placed under restrictions, and borrowing by the Federal Government simply for the purpose of paying reparations would not meet with favor. It appears therefore that the question of transfer will be one of increasing importance and that unless the world in general changes its attitude toward importations, the creditor countries will have to supply the answer.

Sir Josiah Stamp on the Situation

Sir Josiah Stamp, one of the foremost economists of Great Britain and one of the British members of the Dawes Committee, in a recent speech before the Economic League of Manchester upon world conditions, began by speaking of the tendency of Governments and business leaders to drift into difficult economic situations simply because of failure to think important problems through for the adoption of consistent policies which would best serve the interests of society as a whole. He led up to the question of Reparations and International Debts, upon which he is reported in London Times as follows:

> He had pointed out already in connexion with the complicated trade barriers of Europe and the United States and the execution of Germany's reparation obligations and the Allied payments that we tended to stand out for our rights in each of our several capacities at separate times and never to face up to the fact that they were one and the same situation underneath, concerning which a definite choice had to be made. On one day we were industrialists objecting at all costs to foreign goods, especially those made under cheaper conditions than our own, coming into our country, spoiling our competition in neutral markets, and adding to our unemployment problems. The next day we were investors clamouring for our

full rights in interest on our loans, in priority to all other obligations. In our third capacity, we were taxpayers expecting to receive reparations or interest in relief of our national budgets and in satisfaction of our national prides, and ready to treat any failure under this head as a sign of political bad faith or reluctance.

Only One Problem

Beneath these three aspects there was only one problem and we were in effect urging different policies according to our attitude of mind. By much circus practice it is possible to ride two horses at once, but not if they are going in opposite directions. We ought to try to realize the problem as a whole and make conscious choice. Just as there were vestigial remains of our past evolution in the human body, so in the body-politic of industrial and financial opinion there were still considerable remnants of mercantilist thinking of the 18th century, and the logical fallacies of composition and division remain in all our current thinking upon international economics.

Most of the controversy upon tariff questions in the 19th century had unconsciously admitted the fallacious mode of thinking that what was true of parts taken separately was also true of the whole. It was obvious that any man wanting to see over the heads of a crowd could do so by standing on an orange box; indeed, several could do it, but if the whole crowd took to standing on boxes they were all "as you were," with the addition of great insecurity of tenure and quarrels about boxes. Conversely, much of the thorough-going free trade doctrine had been guilty of the fallacy of division and assuming that what was good for a collective whole must necessarily be happiness for every part.

America's Part in the Decision

The time was fast coming when we must really make up our minds what we want on the subject of German Reparations and interest, which could only be paid in goods, and in this decision America must take a prominent part. It was impossible to go on for ever with purely financial settlements and getting rid of a big I O U for a particular year by means of a series of promises for smaller I O Us for succeeding years and then discharging each of these in turn by a brood of future I O Us, and so on ad infinitum. This was what we were really trying to do by the process of continual reinvestment—dodging the underlying realities of the ultimate transfers of wealth. It could succeed for quite a considerable period, but must break down in the end. That did not matter much if the breakdown had no political reactions, but at present it was Utopian to suppose they would not be political.

The speaker referred to the comparative ease with which the reparations and interest problem could be solved if it were consciously organized for by the receipt and disposal of definite objective wealth, and the impossibility of settling it if it were left entirely to financial expedients progressively pyramided into a distant future.

A New Book on Reparations

Timely in relation to the present discussion of Reparations is the appearance of a new book,* written by Mr. George P. Auld, formerly Accountant General of the Reparations Commission. Mr. Auld's service with the Commission and the fact that he was in Paris in that capacity while the Dawes Commission was doing its work gave him an intimate knowledge of the problem with which the Committee of Experts had to deal. He is a keen analyst and his literary skill has enabled him to write a readable book upon an abstruse subject.

This commendation does not signify agreement with all the opinions expressed in the book, some of which are quite at variance with accepted economic doctrine, as for instance, the opinion that in the payment of a debt—without regard to size—no particular problem is created by the fact that the debt is owing in a foreign country. The discussion, of course, has particular reference to reparations and inter-ally indebtedness. A great many people who have refused to accept the opinion of economists that such debts can be paid only in goods and services, without being able to answer them, will enjoy this book for the manner in which it flays the economists, even though it does not answer them.

Mr. Auld is a staunch champion of the claims and policies of France in respect to reparations, including the occupation of the Ruhr, and a defender of the Dawes Plan against all suggestions of modification, although he does not think much of the provision under which the Transfer Committee is directed to suspend reparation transfers in case the stability of the currency would be endangered by their continuance. This is generally regarded as the provision to which the Experts themselves particularly referred when they said that the plan "adjusts itself to realities." Mr. Auld is so sure that no occasion for action under it ever need occur, that he plainly regards it as an element of weakness, although he accepts it grudgingly in the following paragraph, which at once illustrates his style and his views of the economists:

> To the economists, the great merit of the scheme lay in that grant of power. To those others who found it inconceivable that the reparation problem could ever be settled unless Germany actually paid on an equitable basis, the supreme practicality of the device of a Transfer Committee lay in its soothing properties. To them it appeared to be a suitably seasoned dish of meat thrown to the economists to keep them quiet. It insured that a plan dedicated to the idea that reparations could be paid would get over its first hurdles without being sabotaged in any vital part.

The economists are game for the author's wit throughout the book, principally on account of their theory that debts from one country to another can be paid only by means of an export surplus of some kind. A reader might think that all this was leading up to a showing of some other manner of payment, but such is not the case. What he does offer is a clever presentation of the theory that with the growing facilities of the investment markets of the world debts have become an essential and permanent factor in the world economy, and really do not have to be paid at all.

The Natural Flow of Capital

This theory is not as preposterous as at first may appear. Fundamentally, it is that the world has become one investment market, in which a vast amount of capital is always seeking investment, and that this capital flows readily to whatever locality is needing it most and will pay the best returns. The United States was naturally a debtor country down

* "The Dawes Plan," by George P. Auld. Published by Doubleday, Page & Co.

to the Great War and for the present Germany is such a country. So long as Germany is in this position—and of course the reparation payments tend to keep her there—it is natural and in the interest of the world economy that capital shall flow into Germany from countries like the United States, where a surplus exists. Here is part of his description of what is taking place:

> It will be helpful at the outset if we are clear that Germany today is saving the amount of the reparation annuity over consumption. She has an economic surplus of at least the amount of the annuity, for the taxpayers are setting aside an aggregate of that amount out of income.
>
> If the German people continue to pay taxes to meet the payments to the Agent General, the nation will continue to produce an economic surplus to the amount of the annuity, which, commencing next year, will be $625,000,000. That amount of new capital—of tangible objects of wealth—will be saved over consumption.

No exception can be taken to this. It refers to the present situation, with Germany borrowing abroad approximately enough to meet the reparation payments and with the individual borrowers accepting mark currency in exchange for the proceeds of their loans, the latter being transferred to the Reparations Commission. He continues:

> Now, as long as Germany needs foreign capital it is evident that the transfer of reparations will continue to be effected against loans. And when Germany no longer needs foreign capital, it is evident that it will be for the reason that she has an export surplus of her own, available for the making of transfers. Is there any intermediate point between these two conditions? Is there any dead centre at which international economic processes in a world at peace will arrive, after the first condition has ceased and before the second has begun? * * *
>
> The fact, of course, is that capital moves not from but to debtor countries, in obedience to the law of supply and demand applied to capital, and debtor countries settle their international balances by export of securities. There is no capital drain whatever on a debtor country. It is fed with capital by creditor countries. When it does commence to export capital, still in obedience to the law of supply and demand, it has then become a creditor country, and is putting to work abroad surplus capital not needed at home.

Naturally, he vigorously opposes, in the interest of the Plan, any restriction upon the payment of interest on foreign loans. He says:

> Such a control, if it interfered with the natural movement of capital, would threaten the revival of productivity which that movement has stimulated in Germany and the countries to whom Germany is now paying reparations. It would strike at the very processes which are now solving the reparation problem and what little remains of the German currency problem. The longer foreign loans continue to be made to Germany in response to a natural demand—and it appears that such a demand will not soon be satisfied—the longer will reparation payments continue to be transferred against the foreign exchange which they create, and the nearer will come the day when the reparation problem will be completely swallowed up by the white corpuscles of international finance.

Thus his theory is that when the natural inflow of capital into Germany is completed, which will be when its supply is fully up to the level elsewhere, capital as accumulated will thereafter flow out from Germany, either in payment of debts or for investment where returns will be better than at home, the theory being that the capital of all countries intermingles practically without regard to national boundaries.

Practical Limitations Upon the Flow

The logic of this reasoning appears to be faultless, upon the basis of the premise that capital flows without hindrance to the place where the greatest demand for it exists, regardless of whether the demand is at home or in a distant country, but the premise does not correspond with realities. That a tendency to worldwide distribution exists and is growing, is true, but obviously it is held in check by numerous considerations which have a deterrent influence upon many investors. For one thing, a high degree of organization and stability is required in a borrowing country to enable it to give acceptable security for large sums of foreign capital. We have referred to the fact that the practical limitations upon Germany's ability to borrow abroad are far within the limits that would be determined by the wealth of the country if the foreign lenders were themselves residents of Germany. The flow of capital to distant parts is not as free and unrestrained as he assumes.

His favorite illustration is the foreign investments of Great Britain before the war, which nobody thought of as ever to be paid off or withdrawn to the home country. Even the interest and dividends were largely invested abroad, so that the sum total was always growing and the situation always becoming more hopeless from the standpoint of those who are always contemplating a day of final settlement when everything will be collected in.

According to his idea of the fluidity of capital under modern finance, the surplus capital of any country is available for the greater needs of any other country and never will return home until it is needed more there than anywhere else. There is truth as well as fine imagination in the conception, but he is crowding it a little for the present time and for present purposes. The gradual growth of international investments is one thing, and the problem of liquidating the vast body of obligations arising from a war is another thing. The analogy between loans for the development of new countries and loans for the support of war operations or in discharge of war settlements is faulty in several respects. In the one case the expansion of industrial capacity is natural, orderly and in harmony with the economic needs of the world, but in so far as the industrial capacity of Germany is increased for the purpose of increasing her exports on reparations account, the industrial equilibrium of the world will be disturbed for a temporary end. A writer in the London Economist of No-

vember 19, comments upon this point in part as follows:

It was safe enough in pre-war days to invest money in a new country, providing raw materials and foodstuffs which the creditor countries were willing and anxious to accept. It was safe enough to reinvest the proceeds of this investment almost ad infinitum for the further development of such a new country. Such an experience offers no parallel for what is happening at present, where money is being invested in large amounts in a highly-developed industrial country whose products compete with and are not desired by the creditor nations.

The Theory of Capital Diffusion

The theory of a world investment fund consisting of surplus wealth owned in the advanced countries but shifting readily from country to country in response to economic inducements, bringing up the backward ones and maintaining an equilibrium which is the basis of general prosperity, has a wealth of significance in it, extending to all the controversies over the distribution of wealth. This is the idea advanced in this book, but far as it is carried in the book it may be carried still farther, i. e., to the point of questioning how far it is worthwhile to carry exasperating controversies over such matters as reparations— if in fact the distribution of wealth between countries is finally determined by economic forces and the normal equilibrium is bound to be restored in a natural way.

According to the book all the world will help Germany to pay reparations, and Germany will repay without being conscious of the effort, when in time it has become a creditor nation. By the same reasoning, if there had been no reparations all of the world would have fed capital direct to the devastated countries and they in turn would have become exporters of capital when they reached the exporting stage. All that is needed according to this reasoning is patience to allow the economic law to do its work without interference. Given perfect fluidity of capital, the cost of wars would be distributed evenly over the whole world, as, according to the findings of the Master in Chancery, the drainage canal at Chicago has lowered the level of all the Great Lakes. On the other hand, given perfect fluidity of capital, the demonstration of the unity of economic interests should eliminate the economic causes of war.

Allowing for the fundamental truth in this theory of capital diffusion, it assumes a degree of fluidity which does not exist. Moreover, it does not answer the theory of the economists that the actual payment of great sums in international affairs can be accomplished only by the transfer of tangible wealth. The investment markets may be used to facilitate convenient arrangements, but it remains true that there are limiting conditions upon the employment of capital from these sources which must be kept in view. That we have not failed to take account of the part which the world investment market plays in the handling of reparations and debts may be seen from the following extract from an article in the Letter of August, 1926:

To these few reflections upon current criticism we would add the opinion that whether the debts are cancelled or kept alive, will in the long run make very much less difference to either the debtor or creditor countries than many people are thinking.

* * * There is not the slightest probability that the debts due the United States are going to cause a drain of capital from Europe. Great Britain is making payments, but not by transferring capital from Great Britain. She is paying with earnings which otherwise would increase her investments in other parts of the world. This capital serves to increase our investments abroad, and whether the titles to such newly invested wealth are held in this country or Great Britain, the benefits will be distributed throughout the world.

The Term of Reparation Payments

Although strong in his insistence that the reparation payments can be and must be made according to the adopted schedule, Mr. Auld develops a theory that the term of payments is by implication related to the 25-year term of the external loan of 800,000,000 marks specifically authorized by the Plan, and to the amortization term of the railway and industrial bond issues. He argues that there was an implied agreement that the terms of the Plan would stand throughout the loan periods and that no agreement exists beyond those periods. He says:

It seems plain that a guarantee has been given that there shall be no serious dispute regarding the terms of the reparation settlement during the twenty-five years ending in 1949. It seems equally plain that two definite obligations were created: An obligation upon Germany to pay the full annuities to the Agent General of the Allies (subject to suspension by the Transfer Committee) until 1949, unless downward revision can be obtained without serious dispute; and an obligation on the Allies to accept such payments in full satisfaction of all accruing claims on Germany for costs or charges arising out of the war, unless an upward revision can be obtained without serious dispute.

Germany and the Allies have, in effect, undertaken that the annuities shall be stabilized until 1949, or if a final settlement is brought about before that date, that the fair equivalent of their total, in one form or another, shall be paid and received. That part of the annuities, however, which is derived from the railway and industrial bonds, has been separately guaranteed by the German government, in the instruments themselves, to run an additional fifteen years, i.e., to 1964, when the bonds will be fully retired by operation of sinking fund.

It is therefore clear that, through the adoption of the Dawes Plan by the governments concerned, an annuity of $625,000,000 (plus or minus a prosperity adjustment) was guaranteed to run for twenty-five years, and an annuity of $240,000,000 a year was separately guaranteed to run for fifteen years longer. It seems scarcely within the bounds of possibility that any extension of these payments will ever be negotiated.

The 1925 Census of Manufactures

On account of the pressure upon our space this month, the continued discussion of The 1925 Census of Manufactures is necessarily postponed to a later number.